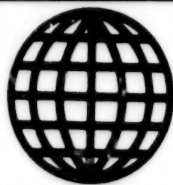


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REFORMS IN ENTERPRISE LEADERSHIP SYSTEM

40050980 Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC SYSTEM REFORM]
in Chinese No 6, 23 Jun 87 pp 10-14

[Article by Jiang Yiwei [5592 0001 5517]: "Separating Ownership from Management in Public Enterprises"]

[Text] On 15 September 1986, the CPC Central Committee and the State Council promulgated three regulations concerning the leadership system in enterprises owned by the whole people. The three regulations, now being implemented everywhere, were drawn up to fit in with the direction of economic structural reform after reviewing the enterprise leadership system over the past several years. They define the principle of separation between politics and business, improve the party organizations' leadership methods over enterprises, establish the director's (manager's) central position in an enterprise, and emphasize workers' rights in democratic management. All this has tremendous significance for further improving the enterprise leadership system.

But some problems remain in the implementation of the three regulations. First, we are still some distance from achieving a common understanding. On such issues as the status and functions of party organizations in an enterprise and the position of the broad ranks of workers as master, in particular, differences of opinion still exist. Some of these differences of opinion may be the result of traditional habits and inadequate understanding of the new system. But then there is indeed a need to further explore some issues on both the theoretical and practical levels. Economic structural reform is an ongoing process of constant improvement. We cannot demand that a new system attain perfection overnight. Besides, the three regulations apply only to enterprises owned by the whole people while socialist enterprises also include collective enterprises and other publicly owned enterprises in a variety of hybrid forms spawned by lateral associations. The leadership system at these enterprises has yet to be explored. Even as we carry out the three regulations, therefore, we must delve more deeply into the leadership system of socialist enterprises and conduct pilot projects here and there. This is necessary if enterprise reform is to be intensified. Below are a few unsophisticated personal opinions for public reference and consideration.

1. Basic Criteria That the Leadership System in Socialist Enterprises Must Satisfy

China's economy will feature a plurality of ownership systems. Even enterprises with the same ownership system will be operated differently. Hence there cannot be just one model of leadership system. Here we will examine the basic criteria the leadership system of a socialist enterprise, that is, an enterprise based on public ownership, must meet. In view of the direction of economic structural reform, I think it should satisfy at least three basic criteria, as follows:

First, it must satisfy the objective requirement of a socialist commodity economy.

The objective of China's economic structural reform is to establish a planned socialist commodity economy. The 3d Plenum of the 12th CPC Central Committee pointed out clearly that enterprises are socialist commodity producers and operators and are relatively independent economic entities. They are legal persons with certain rights and obligations. These qualitative specifications must be reflected in their leadership system.

As a commodity producer and operator, an enterprise is an economic organization with the status of a legal person. It follows inevitably that it should be organizationally separate from party organizations and government machinery. Moreover, ownership must be severed from management. This is the first basic criterion the new leadership system must satisfy.

Second, it must meet the objective requirement of socialized mass production in a modern enterprise.

A modern enterprise engages in socialized mass production characterized by a high degree of division of labor and coordination. Moreover, it must adapt to an ever-changing market. This determines that its day-to-day decision-making and production and administration command be highly centralized as well. As a legal person, therefore, the enterprise should be represented by the director (manager) and that a director (manager) responsibility system be established. This is another basic criterion for the leadership system of a socialist enterprise.

Third, it must mesh with the socialist characteristics of the enterprise.

The two criteria above apply to capitalist as well as socialist enterprises. But a socialist enterprise should also have its own unique features, primarily the status of the workers as master of the enterprise and the position and functions of the party organizations and trade union inside the enterprise. Hence how the leadership system of a socialist enterprise correctly handles the relations between party, government, trade union, and the rank-and-file worker becomes a matter of major import.

Owing to differences in ownership and management, socialist enterprises necessarily have different leadership systems. But the above criteria should be common to all.

2. Decision-Making System and Democratic Worker Management

In a capitalist enterprise, the controlling element is personified capital. As a hired employee, the worker is the object of control. Whether the worker controls or is controlled constitutes the fundamental difference between a socialist enterprise and a capitalist enterprise. It is exactly this fact that makes democratic worker management the hallmark of a socialist enterprise. But since ownership and management systems differ, so does the extent of democratic worker management, notably in the way decision-making power is handled.

The decision-making system of an enterprise usually consists of three levels. At the top is general planning which covers the enterprise's specialization direction and long-term planning, among other things. The next level is strategic decision-making, including the formulation of the annual production and operational plan, long- and medium-range modernization plans, and development plans, and the determination of major construction and development projects. Finally, there is "tactical" decision-making which consists of day-to-day management and decision-making aimed at achieving the strategic plans in a flexible way in the course of production and other operations.

By and large, general planning goes hand in hand with the ownership of an enterprise. The so-called separation between ownership and management does not mean that owners are totally uninvolved in the production and operations of an enterprise. General planning must remain with the owner of an enterprise, while strategic and tactical decision-making powers are entrusted to its management and fall within the jurisdiction of management. Now the question is this: who constitutes the management of an enterprise? The conventional wisdom nowadays is that management simply consists of one individual, the director or manager. Historically, this notion came about in the early phase of capitalism when enterprises operated on a relatively modest scale. We may regard this as the thinking of a small producer. Since the production level in China at present remains quite low, it is only natural that this kind of small-producer idea also surfaces. As production socialization increases and the scale of enterprise operations expands, enterprise management and decision-making will inevitably shift from personal decision-making to collective decision-making characterized by democratic centralism.

The person who controls a capitalist enterprise is the capitalist and it is around him that democratic centralism in the enterprise revolves. Typically the shareholders elect representatives to form a board of directors or supervisors as the enterprise's decision-making body to exercise its decision-making power. Because of scientific and technological advances and mounting production intensification, capitalist enterprises too have become more and more dependent on worker enthusiasm and initiative and been forced to take a number of democratic management measures and coopt worker representatives onto the board of directors. Some factories in West Germany, for instance, have stipulated that worker representatives make up 50 percent of the members of their boards of supervisors, the highest decision-making bodies.

What should socialist enterprises like us do? Clearly "worker participation in management" cannot be a characteristic of socialist enterprises as some capitalist enterprises have already done that. Since the master of a socialist enterprise is the worker, only "worker self-management" can distinguish a socialist from a capitalist enterprise. This is exactly why economic reform in Eastern Europe and even the Soviet Union today emphasizes socialist self-management.

While China's recently-promulgated three regulations also stress worker democratic management, they merely provide for the right of the workers' representative assembly to "consider," but not "examine and approve," the enterprise's policies. All decision-making power is conferred on the plant director or manager. The management committee, set up to exploit collective wisdom, acts only as an advisory organ to the plant director (manager) and not as a democratic decision-making body. These regulations are permissible as temporary arrangements, but if we want the leadership system to further adapt to productive socialization and modernization and to bring out the socialist characteristics of the enterprise, there is a need for more reform.

Of the three decision-making levels in an enterprise, "general planning" should be decided by the owners and, in the case of enterprises owned by the whole people, by the state; strategic decision-making is the responsibility of the worker collective operating as collective management made up of worker representatives. Decisions thus arrived at will be carried out by all the workers working together with one heart, who will also assume responsibility collectively for the consequences of their activities. They share weal and woe, forming an entity with a common destiny. Day-to-day "tactical" decision-making and production and administrative command should be the sole responsibility of the plant director (manager) operating under a highly centralized director (manager) responsibility system.

If a capitalist enterprise practices democratic centralism within the confines of capitalism, then a socialist enterprise does so around the worker. Only this can distinguish the leadership system of a socialist enterprise from that of its capitalist counterpart.

3. Implementation Mechanisms of the Leadership System and the Director Responsibility System

Enterprise management is a science. No enterprise can be run successfully without a group of experts in socialist enterprise management. As the expert of experts, the plant director (manager) has a decisive effect on whether or not the enterprise is properly run. Decision-making at the enterprise must rely on plans scientifically verified by a group of experts headed by the director. The implementation of decisions is even more dependent on an implementation apparatus that is highly centralized and headed by the plant director exercising unified command. This is what socialized mass production objectively demands of a modern enterprise. Accordingly, the plant director occupies a central role in the production activities and other operations of an enterprise.

One controversy in all the discussion about the leadership system is this: whom does the director represent? The status of the director varies, depending on the kind of enterprise in question. In the handful of enterprises that must remain state-owned and state-run, the director is entrusted by the state to directly manage and operate the enterprise on behalf of the state. Obviously, his position is that of a state representative. In the vast number of small enterprises engaged in personal contracting and leasing, the plant director (manager), as contractor or leaser, is responsible to the owner. Clearly he does not represent the state. He merely represents himself and is responsible to the state or other owners. As for the ordinary enterprises owned by the whole people and collectively managed and those contracted and leased collectively, the management power belongs to the workers as a whole. In such cases, the director represents all the workers and is responsible to the state and society. All three types of enterprises mentioned above follow a plant director responsibility system which, however, differs significantly in implications. This must be clearly understood when we study the enterprise leadership system.

4. Position and Functions of Party Organizations and Trade Unions in Enterprises

Upholding party leadership is one underlying principle all enterprises and institutions must adhere to. But there is a few basic things about party leadership that must be clearly understood. First, party leadership essentially manifests itself in leadership in line, policies, and principles, in other words, in ideological and political leadership. The organizational fusion between party and government, on the one hand, and enterprises, on the other, must be brought to an end. Second, the party exercises leadership over the government, military, enterprises, and institutions, but in different ways. Third, party leadership over enterprises is effected through a multitude of channels, primarily administrative management by governments at all levels whose job is to see that party policies and principles are carried out. Another channel is guarantee and supervision by party organizations within the enterprise to make sure party policies and principles are put into effect.

Party organizations are organs of a political party. Enterprises are commodity producers and economic organizations. They cannot and must not be confused with each other. Still, party organizations must exercise political and ideological leadership within an enterprise and guarantee and supervise its work. This is a new concept, a new form of leadership to which many comrades remain unaccustomed to. In any case, we have yet to work out the practical details of achieving this.

In leading the masses to make revolution and in construction, the CPC in principle never depends on administrative fiat but on its sound policies and principles. It also relies on party members' exemplary vanguard role and on organizing and educating the masses closely to mobilize them to struggle for the people's general interest. Armed with this kind of political and ideological leadership but no political power, it succeeded in marshalling and leading one billion people to take the three big mountains off their backs. Now that it is in power, the party is in an even stronger position to lead the

masses to struggle for the creation of a socialist power with Chinese characteristics. How? Mainly through the party's correct principles and policies and by maintaining close contacts with the people's ideological and political work. Changes in the way the party leads enterprises will not weaken party leadership. The main thing is that party organizations must do away with the old method of simple direct control and management they were so used to in the past.

Trade unions are the proletariat's mass organizations. They have their own organizational structure and must not be mixed up with enterprises. The function of trade unions in the construction era is to organize and educate under party leadership the mass of workers to work hard for the building of the two civilizations. If we make it clear that workers are the master of an enterprise and the worker collective its collective manager, then an important role for trade unions today is to be the party organizations' right-hand man and educate and mobilize the workers to exercise the enterprise's democratic managerial powers properly. It is for this reason that we ask trade unions, as representatives of the workers, to play a key role in democratic management.

5. Suggestions for Further Reform in Enterprise Leadership System

Economic structural reform at present centers on revamping the enterprise leadership system, with the thrust directed toward divorcing ownership from management properly and augmenting the enterprise's managerial autonomy. Economic structural reform as a whole is a piece of "systems engineering." Enterprise reform too is a piece of miniature "systems engineering." The separation between ownership and management will inevitably give rise to a string of problems and cannot but necessitate yet more reforms in the leadership system. Enterprises owned by the whole people should implement the three regulations extensively in order to gain experience and pave the way for bettering the leadership system. But reform is an endless process of improvement and development, so we should consider selecting a few enterprises to carry out pilot projects to further leadership system reforms. Following are some suggestions:

First, since enterprises differ in ownership and management, the leadership system must also differ. Thus the three regulations should not be enforced uniformly across the board. Instead, enterprises should be allowed to modify and amplify them as necessary, depending on their practical circumstances, with the approval of the department in charge above.

Second, a small number of enterprises may expand their workers' rights in democratic management on a trial basis, replacing the right of the workers' representative assembly to "consider" the enterprise's business objectives, annual plans, major technological transformation projects, and other strategic decisions with the right to "examine and approve" them, thus giving all employees the power to make major decisions for the enterprise as well as the responsibility for carrying them out. Moreover, they will assume joint responsibility for the success or failure of the enterprise. As far as the distribution system is concerned, workers' personal interests should be tied to the enterprise's balance sheets, resulting in a democratic management system where workers are in control and responsibilities, rights, and

interests are related to one another. That way the socialist characteristics of enterprises will be brought out more vividly and workers' master status will assume a tangible form, hence unleashing the initiative, enthusiasm, and creativity of all workers, including mental and physical workers.

Third, even as the power and functions of the workers' representative assembly are being upgraded, the leadership of party organizations within the enterprises over the masses as master must be strengthened. Party organizations in the enterprise should step up the party's ideological and organizational work, rely on party members and trade unions, and guide and mobilize the workers to exercise the rights and fulfill the obligations of democratic management appropriately. Party organizations should guarantee and supervise the work of an enterprise principally through the workers' representative assembly. If party organizations and the trade union win widespread support among the rank-and-file workers, the secretary of the party committee and the chairman of the trade union may be elected as chairman and vice chairman in charge of day-to-day affairs, respectively, of the workers' representative assembly and exercise direct leadership over it. Needless to say, we cannot make it a hard and fast rule that the party committee secretary and the chairman of the trade union must serve as chairman and vice chairman of the representative assembly. But provided the party organizations and trade unions have not cut themselves off from the masses, this will be the natural outcome when democracy is allowed to operate fully.

The workers' representative assembly should exercise strategic decision-making power under party leadership and the detailed organization of the trade union. That way, not only will the workers be able to establish themselves as the master, but the party and trade unions will also be able to play their leadership and organizational roles, respectively. As a result, party guarantee and supervision of enterprise operations and democratic management by workers will be integrated and given a more concrete expression. The workers' representative assembly should concern itself only with strategic decision-making starting with the annual plan and should not intervene in the manager's day-to-day management and production command. Far from affecting the implementation of the plant director responsibility system, this arrangement will actually provide it with powerful backing.

If we carry out the above reforms on the basis of the three regulations, party organizations will not feel "idle." At the same time, it will put an end to the old problem of the party committee meddling in every matter, big and small. It is entirely within our power to reconcile the party, government, trade unions, and workers with one another within an enterprise and make the socialist leadership system even better.

PRC JOURNAL ON SOCIALIST CONSUMPTION THEORY

HK111536 Beijing LILUN YUEKAN in Chinese No. 5, 25 May 87 pp 14-17

[Article by Shi Yousheng (2457 0147 3932): "Several Questions Concerning the Socialist Consumption Theory"]

[Text] The formulation of any economic policy should be guided by economic theories and a specific economic theory should be based on a given economic system and specified conditions. In the reform of the economic structure, if this objective law is violated and Western bourgeois economic theories are held in unrealistically high esteem, this will more often than not cause policy errors in the economic sphere. This is an important lesson.

I. "Stimulating Consumption" Is a Bourgeois Economic Theoretical Viewpoint and It Serves the Capitalist Private Economy in Terms of Policy

Bourgeois economic theories are based on a capitalist system characterized by private ownership.

Marx brought to light the law of polarization that states that in the capitalist private economy, the distribution of social wealth is carried out using capital as the yardstick and governed by the law of capital. Hence, the capitalist society has two poles: "One is accumulation of wealth and the other is accumulation of poverty."

Under the relations of production and distribution of this kind, the consumption of the laboring masses as a class is no more than a condition for appreciation of capital and reproduction. Therefore, the laboring people are always in the stage of underconsumption. By its natural instincts, capital is bound to restrain the consumption of the laboring people and keeps their consumption level within the minimum limit of supporting the reproduction of labor force. This is the major reason for underconsumption in the capitalist society.

The capitalist private ownership also determines that the functions of reproduction in the capitalist society are those of the capitalists and competition between property owners requires the capitalists to reinvest the bulk of the surplus value obtained through exploitation in the process of production to enhance their competitiveness. The direct outcome of this anarchic competition is that the first category of social production tends to

develop blindly, the second category of production shrinks or develops slowly as restricted by underconsumption on the market, and there are serious disproportions between the two major categories of social production. All this makes the realization of value difficult. The law of profit rate decline in the capitalist relations of production can function on the formation of large amounts of surplus capital and make market demand for capital investment inadequate. The above numerous contradictions, if they coincide to a certain extent, will set off an economic crisis characterized by periodic overproduction. Through the role of the market, the proportional relations between the different categories of social production will be spontaneously readjusted so that the productive forces are damaged. This is the root cause of the capitalist economic crises as brought to light by Marx.

Bourgeois economists are clearly aware of the harmfulness of economic crises to the capitalist system. From their desire to protect private ownership, they attribute economic crises to underconsumption. Therefore, all bourgeois economists since John Keynes have in general favored adopting a policy of stimulating consumption and boosting society's purchasing power and market demand by relying on government functions and by means of issuance of more currency, inflation, and deficit budgeting to prevent an economic crisis. Obviously, the viewpoint of stimulating consumption is a theoretical viewpoint that serves the capitalist system. Although the policy of stimulating and expanding consumption on the basis of private ownership failed to thoroughly solve the basic contradictions in the capitalist society, in a certain sense, it has relieved economic crises and stimulated economic growth.

II. The Socialist System Has Thoroughly Eliminated the Root Cause of "Underconsumption"

Taking cause for effect, the consumption theory of contemporary bourgeois economists attributes the fundamental contradictions in the process of production to underconsumption in the consumption field and on the premise of preserving private ownership, strives to overcome the basic contradictions under capitalism using a policy of stimulating consumption. Obviously, this prescription is of no avail for the chronic maladies of capitalism.

The socialist system established under the guidance of Marxist theory has transferred the property of the bourgeoisie to the system of ownership by the whole people, thoroughly eliminating the cause and foundation of underconsumption under capitalism. In the economy under the system of ownership by the whole people, capital is no longer a means for exploiting other's surplus value and laborers share the fruits of labor they jointly contributed in accordance with the principle of distribution according to work. Therefore, wages are no longer the manifestation of the value of labor force. In terms of quantity, the wage of laborers under socialism contains an element of what is called surplus value under capitalism, which constitutes the material condition for the labor force under socialism to expand reproduction and to continuously raise its quality. Meanwhile, the state returns some of the value it amassed to the laborers for consumption use in the forms of various reserves funds and relief funds and social welfare services. It can thus be said that the phenomenon of underconsumption among the laborers has ceased to exist and it is absolutely unnecessary to expand

market demand by means of stimulating laborers' consumption. On the other hand, with the establishment of the system of ownership by the whole people, social reproduction and appreciation of value have become the functions of the state representing the entire people. Through the forms of taxation and profit delivery, the state makes accumulative deductions from the total surplus value created by laborers and uses them in expanding reproduction. Theoretically, the state can save and distribute surplus value for consumption in a planned way; make planned arrangements for the distribution of accumulation funds between different production departments to keep the proportional relations of the various departments of social production basically balanced; and raise the living standards and consumption level of the people in a planned way. This is the essential meaning of the planned commodity economy, under which production-related underconsumption and the value of social products becoming not realizable will be naturally non-existent and there is no need to use policies to stimulate investment in production-related consumption. Of course, in socialist state-owned enterprises there will be stockpiling of products for such reasons as management, quality, and product varieties and designs. Apparently this is not caused by inadequate purchasing power on the market and it can be solved by relying on readjusting industrial patterns and increasing production of marketable goods. It can thus be seen that in the socialist economy, the root cause of underconsumption has been eliminated and the restrictive role of underconsumption on production under capitalism has ceased to exist. If we indiscriminately advocate expanding consumption to stimulate production, this will only produce negative effects on the state's economic activities.

III. The Misleading Role of the Traditional Socialist Economic Structure and Erroneous Economic Policies on Consumption

Theoretical correctness does not necessarily mean the correctness of our policies and practice. Especially when we still lack experience in socialism, and the structure of management of the socialist economy under the system of ownership by the whole people is still imperfect, it is not strange that in society's economic life, consumption is sometimes inadequate and sometimes overheated.

For quite a long time since the founding of the PRC, we have adopted an economic policy of high accumulation and low consumption. Under the special historical condition, it did play a positive role in developing the socialist productive forces and establishing our country's industrial base. However, because of the economic structure and the practice of unduly emphasizing production, we accumulated funds and expanded reproduction by restraining laborers' demands and in the production field, since we did not have a highly efficient management structure, the funds saved by the masses of people by economizing on food and clothing were not fully exploited. High accumulation failed to produce great benefits and in turn checked the growth of the people's consumption. Hence, there was a vicious cycle. With the smashing of the "gang of four," this historical lesson led to discussion by the economic theoretical community of the purpose of socialist production and the readjustment by the state of major proportional relations in the national economy. There is no denying that in the first few years following the 3d Plenary Session of the 11th CPC Central Committee, through tremendous efforts,

the party and state have appropriately readjusted the proportion between consumption and accumulation, thus greatly improving the people's living standards and creating conditions for the sound development of the national economy. It is a pity that at a time when the proportion between accumulation and consumption has become basically rational, particularly after the incidence of overheating and premature consumption in the course of the old structure being replaced by the new, some comrades in the party and the economic theoretical community continued to advocate the theories and policies of stimulating consumption and used them to guide the economic structural reform. Moreover, when delegating power to the lower levels in 1985, we failed to establish a complete set of strict managerial rules and regulations. All this resulted in a temporary loss of control over society's total demand. Looking back at this phase of history, we can see that without correct theories and policies as the guide, we more often than not made mistakes with the economic structural reform and delayed or retarded the reform. This matter must be addressed.

IV. Essential Characteristics of the Socialist Consumption Relationship

With both positive and negative experience in mind, we should make a theoretical description of the characteristics of socialist consumption relationship in line with the nature of the economic system in our country. In this way we can avoid repeating historical mistakes and reduce the volatility and changeability of economic policies as the economic structural reform continues to move ahead.

What are the essential characteristics of the socialist consumption relationship?

1. The consumption by laborers of the means of production under socialism is a homogeneous consumption.

As socialism has wiped out private ownership and the relationship of exploitation, the only basis for a laborer to acquire means of subsistence is the labor he contributed to society. This is a fairly homogeneous consumption, under which there will be no polarization in terms of the amount of laborers' income.

The homogeneity of socialist consumption does not necessarily amount to egalitarianism. By homogeneity, we mean that the standards for laborers' income for consumption are uniform, based on labor while egalitarianism does not base distribution on labor. Homogeneity also negates exploitation of others' surplus value by relying on capital or other powers. Since there is a difference in ability to work between laborers, there are bound to be differences in their incomes. They are differences based on labor and therefore, there can be no polarization and the phenomenon of a small number of people gaining large amounts of social wealth using the capital they hold will be out of the question. In this respect, consumption is really subject to the control and domination of production and no longer a decisive force in restraining production.

2. The growth of socialist consumption is a planned one.

Under the system of ownership by the whole people, the functions of accumulation and expanded reproduction are concentrated in the hands of the state or its representatives, the state can make planned arrangements for the distribution of accumulation funds among the various departments of social production in accordance with the developments of production and science and technology at a certain stage to ensure there is a balanced proportion in the distribution of accumulation funds among the various departments. This process does not exclude the use of state plans to guide investment orientation and distribution of production resources by means of indirect controls and the market's law of value. In distribution of consumer goods, the state can also adopt various economic policies to directly or indirectly control the scale and quality of consumption according to the development level of production and the people's requirements so that consumption will on the whole grow in a planned way. Therefore, generally speaking, in the socialist economy, productive consumption and personal consumption are bound to be a process of gradual advance rather than a blind wave-like consumption. The emergence of underconsumption and excessive expansion of consumption at any time can be considered an indication that there is something wrong with the economic policies and a signal and orientation for economic readjustments.

3. The consumer demand manifested in the consumer goods market is no longer the main driving force for production.

In the capitalist private economy, the market for the means of production and that for the means of subsistence form a unity and are dominated by the law of value. Therefore, the market and profits are the only motive force and indicator for the producers to develop production. In the socialist planned commodity economy, the role of the market should naturally not be underestimated and by increasing or decreasing the market's purchasing power we can guide production. However, the mode of operation of the socialist market has changed. First, the market for the means of production and that for consumer goods have become relatively independent, with the former being organized in a more planned way. The investment activities of enterprises under the system of ownership by the whole people are mainly carried out in this planned market. Therefore, planning, the market, and profits serve as an indicator for the enterprises' production and investment. State plans must hold a leading position in some aspects. When planning and the market clash, enterprises should submit themselves to the state plans. Even the investment and business activities completely subject to market laws which are no longer in the state of blindness and free competition are more or less directly influenced by the state plans. That the planning of the socialist market for the means of production plays a dominant role is a difference in principle of the socialist economy under public ownership from the capitalist economy under private ownership and also demonstrates the superiority and is an important manifestation of, the socialist economy. In the course of the economic structural reform, this point merits particular attention. Although the consumer goods market operates basically in accordance with consumer demand, this demand is a demand already subject to state control and guidance rather than a blind demand. Therefore, the production activities carried out in accordance with this demand are ultimately governed by state plans.

It can thus be seen that under socialism the role of consumption on production is no longer as important as it is under capitalism. This does not mean violating the Marxist basic principle that the aim of production is consumption, because there is always a difference between the consumption activities as the continuity and development of the life of individuals and the entire consumption activities of society in terms of values. Since the market demand for consumer goods composed of the sum total of consumption desire of individuals cannot necessarily entirely and correctly reflect the interests of the whole society, sometimes society has to intervene in and regulate market demand through state power to safeguard the interests of the whole society. Under the capitalist system, it is very difficult to achieve this goal. The socialist system provides conditions for the state to regulate and intervene in consumption. Of course, as with any economic policies, the regulation of and intervention in consumption by the state are conditional. They should safeguard the interests of the whole society and also take the interests of every member of society as the premise. If this point is neglected, state intervention will be harmful to the economy.

4. Production ultimately determines consumption.

In accordance with the Marxist viewpoint, although consumption is the purpose of production, in the final analysis, it is restricted by production. In the capitalist economy, this point is manifested by confused false appearances. Only in the socialist economic relations can the law that production determines consumption be demonstrated to the full. This is because the consumption quality of socialist laborers has ceased to be confined by the exploitative relationship of capital and the only thing subject to restriction can be the quality and quantity of production development at a certain stage. If socialist consumption exceeds the limits of quality and quantity of consumer goods that production development can provide, not only is consumption quality impaired but this will also give production activities a wrong signal, causing the structure of production to be regulated and developed in a lopsided way, thus jeopardizing the foundation of production and intensifying the disproportions in various production departments. On the other hand, if consumption is inadequate, production activities will also shrink. In the course of the economic structural reform, these two tendencies should be avoided.

Since the wages of socialist laborers are no longer the manifestation of the value of labor force, laborers' income is no longer merely the cost for keeping the simple reproduction of labor force going. Then advocating hard work and thrift among laborers and practicing careful calculation and strict budgeting in production and livelihood, reinvesting the saved funds in reproduction, and expanding the scale of accumulation will help raise the consumption level of families of laborers and their offspring. Therefore, this is a policy that corresponds to the fundamental interests of laborers and an always correct principle of the socialist economy.

The point at issue is not simply the advocating of the slogan of working hard and practicing economy, and what counts in this regard is to strive to raise the utilization rate of accumulation funds while encouraging the people to

work hard and practice economy. In this way we can ultimately achieve the goal of being hardworking and thrifty. At present, waste in production investment is still serious. Therefore, we should persistently continue to carry out the economic structural reform to strive to establish a highly efficient investment structure for social reproduction and amass more funds to quicken the pace of socialist economic construction while advocating hard work and thrift among the people. In this process, we should raise the consumption level of the people in a planned and steady way.

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JINGJI RIBAO ON DUAL STATE ECONOMIC FUNCTIONS

HK310635 Beijing JINGJI RIBAO in Chinese 14 Jul 87 p 3

[Article by Hong Xiaoyuan (3163 1420 3293), Li Su (2621 5126), Du Feijin (2629 7378 6651), Yin Lantian (1438 5663 1131), and Lu Liqin (0712 4539 0530): "The Separation of the Dual Economic Functions of the Socialist State--an Important Step in Deepening Reform"]

[Text] From microeconomics to macroeconomics, our country's economic system reforms include transformations at three interrelated levels, namely the improvement of the system of enterprises and mechanism for operation, the establishment of the unified socialist market, and the change of the state's function in economic intervention. At present, if the reforms at these three levels are to progress, they will encounter the same crucial problems of defining the main body of property rights and separating the functions of the state.

1. With the adoption of various measures, like leasing, the contract system, the responsibility system of asset operation, and so on, substantial results in reforming the operation methods of enterprises have been scored. However, since the rational behavior of enterprises is mainly determined by the way owners (the property owners) restrict them, the various reforms of their operation methods that are designed to separate ownership from operational rights cannot give an answer to questions such as: Who are the owners? How can the rationality of owners' behavior be governed? Do owners have profit motives and are they restricted by any risk?

2. In the course of developing lateral economic ties, since various main bodies invest in each other and go into joint ventures, a situation in which there is a diversity of enterprise owners has emerged, and the improvement of the enterprise system of public ownership has been urged. This means that both the property owner and the property rights have to be defined.

The major difference between enterprises that are and are not legal entities (individual and joint enterprises) lies in the different way in which investors exercise their property rights. In the latter case, investors will directly exercise their property rights so that the rights to own and operate can be integrated. In the former case, investors will have to set up organizational bodies at their own expense which are separated from them. These organizational bodies are companies that are legal entities. It is

provided for in law that they are independent in character and have the right to monitor all the property of the companies. As investors are members of organizations that are legal entities, their property rights are transformed into shareholders' rights, the kind of rights enjoyed by members of these organizations, and improvements are made to the socialist enterprise system so that enterprises can become independent legal entities. The independence and stability of enterprises can be maintained on the one hand, and more important, the social characteristics of enterprises and the adoption of the opening up policy can be guaranteed on the other. This is because the integration of enterprises and assets can only be steadily unified as a whole with the diversification of property owners when enterprises that are legal entities are structured in the form of companies. Factors of production can rapidly flow among enterprises of different industries, and a microeconomic foundation can thus be laid for bringing into full play the function of market mechanism, and for the full development of the lateral economic ties in the modern commodity economy.

3. Fair competition and flow of production factors are patterns that express the function of market mechanism. In the flow of the socialist commodity economy, it is necessary to bring into full play the function of market mechanism. In this way, what is required is the transformation of the main investment bodies and the assignment of the property rights. The fair competition of different main investment bodies (including government investment organizations, enterprises, and individuals) constitutes the flow of production factors, which is the basic pattern expressing the function of market mechanism. Fair competition is not only required for social fairness, but also for the effective allocation of resources. In order to fully bring into play the function of market mechanism in the socialist commodity economy, apart from price reform, we should also promote the lateral flow of production factors through the change of the state's main investment bodies, and bring about fair competition in production results by fair competition in the choice of investment. Under such conditions, the state's investment organs have to be transformed into the state's main bodies of property rights that obtain allocation of capital investment from the state, participate in the management of enterprises, and enjoy property income. In other words, as investors in enterprises, the state's investment organs will enjoy all the property rights. The profit motives of the state's main investment bodies have been strengthened, and the existing condition in which the investment policies and profits of the state are separated from one another has been changed; the profit motives of enterprises have been strengthened, and problems related to the characterization of their assets and the rationalization of their behavior have been resolved.

4. The state performs the dual economic functions through one identity, which is conducive to neither microeconomic nor macroeconomic adjustment and control. If the function of the socialist state in economic intervention is effectively brought into play, the dual functions of the state have to be separated.

First, the state exercises its property rights over enterprises through government organs. As a result, either the assets of enterprises are personified, and government organs as property owners become inevitably

administrative in nature under the state's intervention, or staff members of enterprises are given the powers to administer themselves, and the behavior of enterprises tends to be inevitably short-term as staff members are not property owners of the enterprises. In this way, it is difficult to improve the system and behavior of enterprises and the market mechanism, and the government thus becomes unable to establish an indirect macroeconomic adjustment and control system.

Moreover, the state intervenes in enterprises by means of the main body which assumes various rights (powers). As a result, the exercising of various rights disturb and restrict each other, and their effectiveness is affected. The administrative two-level companies that are presently stepping up transformation can be taken as illustrations. The problem concerning the administrative two-level companies is that though they are enterprises, they constitute the so-called condition of "two-level legal entities" in which they are senior to other member enterprises, and thus, on the one hand, the basic principle related to the equal status of legal entity as stipulated in the general principle of the civil code is violated. What is more important, on the other hand, is that these administrative two-level companies assume four powers, namely the party's powers, administrative powers in noneconomic areas, administrative powers in economic areas (the power to manage various industries, and the power to allocate materials and resources), and the property ownership rights of the subordinate enterprises (such as the power to appoint factory directors and managers). As a result, the multilevel relations among enterprises and investors, government, and the party are interwoven, which is conducive neither to the effective exercise of various rights (powers) of different natures, nor to the independent operation of enterprises and the lateral ties among them. Therefore, the transformation of the administrative two-level companies is not only a change to another track and a change of pattern (such as the change to a government management bureau or an enterprise company), but a question related to the change of method adopted by the socialist state in economic intervention, and the separation of the increasingly diversified functions, which includes: first, the separation of the functions of the party and state; second, the separation of the dual economic functions of the state; third, the separation of the function of economic management from other functions of the government. As a result, different rights (powers) will be exercised by different main bodies and corresponding organizational patterns.

5. Summarizing the above, we can see that the progress of our country's economic system reform on a comprehensive scale has encountered a crucial choice--the separation of the dual economic functions of the state, that is, two different main bodies and corresponding organizational patterns will be made use of in exercising the different rights (powers) of the state in economic intervention in accordance with the demands arising from the flow of the commodity economy and management.

In participating in economic activities, the socialist state has dual identities and functions. First, as the main body of the state's administration powers, the government functions to manage the national economy through the exercise of administration powers above and outside all enterprises. Second, as the representative of all the people and the main

body of property rights, the socialist state, based on the means of production under the whole-people ownership system, functions to participate in the management of enterprises through the exercise of property rights (transformed into shareholders' rights) in enterprises (legal entities). Since our country is now at the initial stage of socialism, ownership systems of the means of production coexist in various forms, distribution according to labor in the sense of the whole of society cannot be entirely realized, and property income is still secured by the General Principle of the Civil Code. Therefore, the means of production under the whole-people ownership system can only be maintained and the demands arising from the flow of the commodity economy catered for if the property rights of the state are defined and restricted.

Yet, the property rights and administrative power are completely different from each other as far as origin, nature, content, and way of exercising are concerned. First, the former refers to the lateral ties between equal main bodies, adjusted by the civil code, while the latter refers to the vertical relations between equal main bodies adjusted by the public code. Second, the former (property ownership rights) includes rights to possess, use, obtain profits, and punish, while the latter includes powers to build, command, sanction, and manage. Moreover, the former must be exercised in compliance with the principles of civil activities, such as willingness, fairness, and compensation at equal value, while the latter is notably exercised with coercion. Therefore, from the theoretical point of view, if these two kinds of rights (powers) are exercised by one main body (the government as the main body of administrative powers), disturbance among each other, and confusion in economic relations (lateral and vertical) will be inevitably caused.

In formulating the specific methods for separating the dual economic functions of the state, we can take into consideration the establishment of two parallel organs by the National People's Congress. One is a government organ of the socialist state (the State Council), and the other an organ administering property rights of the socialist state (the Commission for Property of the Whole People). Their areas of responsibilities and coordination can be specifically laid down at the National People's Congress. The division of labor can be generally designed as follows. As the main body administering property rights in the state, the Commission for Property of the Whole People can allocate the state's investment and exercise the property rights (including those in the existing state-run enterprises) through state investment companies (legal entities) established by it. In enterprises that are legal entities, the property rights are expressed in the form of shareholders' rights. Most state investment companies take profit-making as their target for operation, so that the rationality of the behavior of enterprises and the allocation of resources can be safeguarded. As the main body of the state's administrative powers, the State Council exercises macroeconomic adjustment and control over the national economy and oversees business management through various departments and agencies of various functions. Meanwhile, it also enforces legal supervision and industrial and commercial management on enterprises in order to guarantee the steady and balanced growth and the protracted and coordinated development of the national economy.

BRIEFS

STATE REVENUE UP--Beijing (CEI)--The State pocketed a surplus of 5.35 billion yuan, with a revenue of 90.35 billion and an expenditure of 85 billion yuan, in the first half of this year, according to Tian Yinong, Vice-Minister of Finance. However, he noted, the surplus would be temporary because most of the spending would come in the second half of the year. What is more, compared with the same period of last year, State revenue dropped by 1.7 percent. He said that though the output value of State-owned enterprises in the first five months increased by 11.2 percent compared with the same period of last year, profit increased only by 0.8 percent, meaning the enterprises were not as profitable as it should be. One of the reasons he gave for such low profits was huge investment in capital construction. In the first five months, the number of new construction projects numbered 6,000. He asked departments concerned to cut down expenditures. [Text] [Beijing XINHUA in English 0535 GMT 15 Jul 87 OW] /12913

TEXTILE INDUSTRY GROWTH--Beijing (CEI)--China's textile industry scored a total output value of 53.4 billion yuan in the first half of this year, up 7.8 percent over the same period last year. Statistics just released by the Textile Industry Ministry show all major products have topped the half-year plan production targets. Compared with the same period last year, the output of chemical fiber increased 17.7 percent to 600,000 tons; cotton yarn, 8.5 percent to 2.04 million tons; cloth up 5.2 percent to 7.6 billion meters; wool fabric up 6.6 percent to 112.67 million meters; and wool yarn up 21.3 percent to 76,803 tons. [Text] [Beijing XINHUA in English 0538 GMT 15 Jul 87 OW] /12913

CSO: 4020/257

JANUARY-JUNE STATE INVESTMENT IN CAPITAL CONSTRUCTION

OW031052 Beijing XINHUA in English 0535 GMT 3 Aug 87

[Text] Beijing (CEI)--Following is a chart showing China's state investment in capital construction during the first six months of this year:

	Jan-June (Billion Yuan)	Comparity With Corresponding Period 1986
1. Investment in Capital Construction	40.15	119.3 percent
Productive Construction	26.95	129.7 percent
Non-Productive Construction	13.20	102.4 percent
Of Which, Residential Houses	4.83	86.0 percent
2. Newly Increased Fixed Assets	6.95	108.3 percent
Completed Floor Space (In Million Sq. Meters)	16.162	84.3 percent
Of Which, Residential Houses (In Million Sq. Meters)	8.282	76.6 percent

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WORKERS' WAGES, BONUSES INCREASE JANUARY-JUNE

OWO41404 Beijing XINHUA in English 1354 GMT 4 Aug 87

[Text] Beijing, 4 August (XINHUA)--The wages of Chinese workers increased in the first half of this year by 14.1 percent or 9.69 billion yuan compared with the same period last year, XINHUA learned from the State Statistics Bureau today.

The wages of all employees of State owned enterprises jumped by 60.7 billion yuan, a 13.8 percent increase over the same period last year. Workers in collectively owned units shot up by 17.12 billion yuan, a 14.6 percent increase. The number of workers in other sectors of the economy has increased by a dramatic 28 percent while their wages jumped by 40 percent.

All these figures for wage increase do not include the price support for meat and other non-staple food.

The Statistics Bureau drew the attention to the faster increase in bonuses. It pointed out that the amount of bonuses has increased at a rate much too fast. The enterprises in the country issued 10.6 billion yuan in bonuses from January to June, 45.3 percent more than in the corresponding period last year. The proportion of bonuses in the total payroll rose from 10.6 percent in the first half of last year to 13.5 percent this year.

The increase in bonuses in some enterprises has exceeded the rate of production growth and some enterprises issued bonuses even they were in the red, an official from the bureau said. Some enterprises still increased bonuses of workers although their profits dropped. "The issuing of bonuses has failed its purpose of motivating the workers," he said, adding that "this must be changed."

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RAILWAY SYSTEM NEEDS TO EXPAND CAPACITY

OW151252 Beijing XINHUA in English 0829 GMT 15 Aug 87

[Text] Beijing, 15 August (XINHUA)--Each kilometer of railways in China carried 596.9 billion tons of freight or an equal amount of passengers in the first six months of this year on average, double that in 1978.

Officials of the Railways Ministry told XINHUA that the present structure can hardly meet the needs of the developing economy. The Ministry is now concentrating on expanding the handling capacity of the existing railroads, while constructing or upgrading new lines.

Among the 38 marshalling yards in China, 28 have increased the number of trains they send out every day by 10 to 30 percent. The yards sent out 38,000 trains every day last year, 15 percent more than in the previous year.

Since April, the number of both passenger and freight trains has increased by 22 percent and 20 percent, respectively, compared to 1978. Now passenger trains are capable of transporting three million people a day.

The project to add a double-track along the line between Hengyang in Hunan Province and Guangzhou is nearly complete. The project of expanding the railway network in eastern China is going on smoothly.

China had a total of 55,653 kilometers of track by the end of last year.

Officials of the Ministry said that the focus of their work during the period from 1986 to 1990 will be on expanding the handling capacity by renovating old equipment. Three thousand six hundred kilometers of new tracks, 3,300 kilometers of double tracks, and 50,000 kilometers of electrified lines will be constructed during the period.

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PRC PAPER ANALYZES GRAIN PRODUCTION SITUATION

HK171020 Beijing NONGMIN RIBAO in Chinese 7 Aug 87 p 1

["Economic Commentary" by reporter Liang Zhenming (2733 2182 2494): "Analysis of the Current Situation in Grain Production"]

[Text] This year, most localities have set store by, and increased investment in, grain production. Currently we have already reaped a bumper harvest of summer grain. This is a good omen indicating a good harvest of grain for the whole year. However, since the summer grain sowing area has been reduced by more than 400,000 mu and there have been many natural disasters this year, the total summer grain output amounts to only 90.82 million tons, a decrease of more than 2.4 million tons as compared with last year's figure. Autumn grain accounts for a major portion of the whole year's grain yield; and early rice and autumn grain together make up more than 3/4 of a whole year's grain output. Now that the early rice output has declined, although the autumn grain sowing area has been increased by about 10 million mu, the proportion of high yield crops such as corn and hybrid rice has been raised, and all crops are going well. Agricultural circles here predict that the total grain output for the year will only reach 395 to 400 million tons, provided that there are no extraordinarily serious natural disasters in the latter half of this year. This predicted figure, though an increase of 3.5 to 8.5 million tons over last year, will still fall short of the year's grain output target which has been set at 450 million tons. This will be yet another year of low growth in grain production.

As China will possibly witness low growth in grain output for the third successive year, will the country be faced with a grain shortage? The answer is no.

It must be admitted that the overall situation in grain production in our country is excellent. As the contract system of responsibility linked to production on a household basis and a series of new policies have been implemented in rural areas since the 3d plenary session of the 11th CPC Central Committee, we reaped good grain harvests for six successive years. A good turning point in the grain production situation began to emerge in 1983 and 1984, and the country's grain output reached a record total of 405 million tons. This not only enabled China to meet its 1 billion population's needs for clothing and food, but helped it to turn from a grain importer into a grain exporter so quickly that peasants found it difficult to sell their

grain. Although the grain output decreased by 25 million tons in 1985 as compared with the previous year, it increased again by 10 million tons in 1986, and it seems to be keeping on increasing this year. By the way, the whole country's annual demand for grain will be around 275 to 300 million tons in this and the next few years, and the total demand for grain with feed, wastage, and seeds taken into account, will be around 385 to 390 million tons. In other words, the total grain consumption will increase by 12 million tons each year. So long as the grain output is kept at the level of 385 to 400 million tons, there will be no shortage of grain in the country. What is more, we have an ample stock of grain in China at present and the peasants have also kept some surplus of grain. Therefore we can be assured of a sufficient supply of grain on the market. All this obviously shows that the current situation in grain production is not too bad.

Of course we must also be aware that our country's grain production output is relatively low. With a per capita grain possession of about 400 kg--which is lower than the world's average 430 kg--the country can just meet its people's needs for clothing and food. Grain production as the very basis of the national economy remains a weak link. Both the rapidly developing national economy and the growing population are demanding higher and higher grain output. If we want to maintain a per capita grain possession of 400 kg when the population reaches 1.25 billion in the future, then we must raise the average per-mu yield of grain to 450 kg. This is by no means an easy task since we have to raise the average per-mu yield by 10 kg each year. Therefore we must never slacken off in grain production but try our best to maintain a higher and steady growth rate. This is the first point.

Second, the causes of low growth in grain production during the past three years were manifold. In the final analysis, it was because we did not have a firm belief in the principle that grain production is the very basis of the economy. And, especially in the past few years when we reaped bumper harvests, we were over optimistic about grain output, thus slackening off in grain production and reducing investment in agriculture. As a result, little improvement has been made in agricultural production conditions, and the situation has even worsened in some places. For example, the area of farmland has been reduced by too much and too fast; agriculture's capacity to resist natural disasters has decreased since water conservation facilities have not been properly maintained for many years and the equipment is obsolete; the fertility of the soil has declined as the fertilizing system is not rational; the mechanized operation standard has decreased--over 60 percent of the country's farmland, and over 90 percent of the sown area and harvesting area, are still handled using man or animal power; and the systems of service before, during, and after production are quite unsound. All these factors have affected grain production to a certain extent.

How then can we change the situation of low growth in grain production? Some people said: The fluctuation in grain output in the past few years is mainly due to the fact that we have overdone it in readjusting the production structure in rural areas; as far as grain production is concerned, we should still adhere to the principle of "taking grain production as the key link." Their view is wrong. While emphasizing that grain production must not be slackened, we never mean that we can overlook the development of the

diversified economy, township and town enterprises, forestry, animal husbandry, fisheries, and the growing of industrial crops, and that we can return to the "old road" by which undue emphasis is laid on grain production. For several decades we had followed this "old road" which failed to help us raise grain output but caused all business to languish. What are our grounds for saying the situation in rural areas has been excellent in the past few years? Of course, the growth in grain output is slow. However, both the peasants' income and the state's revenue have increased and the market supply has been ensured. Our experience in the past few years indicates that without developing a diversified economy, grain output will not increase, or it will drop again even if it rises for a while. The development of the diversified economy has brought peasants higher income. So the peasants can spare money for investment in agriculture. As a result, although the state's investment in grain production has decreased in the past few years, grain output has still increased because the peasants have increased investment on their own. Facts have shown that the policy for readjustment of the production structure in rural areas is correct and must be steadfastly upheld. We must not waver in face of temporary low growth in grain production. The readjustment of the production structure in rural areas is an objective need arising from the accelerated process of specialization, commercialization, and modernization, of the rural economy. Attaching importance to grain production does not go counter to the development of the diversified economy and of township and town enterprises. In fact they are mutually complementing and helping each other forward. Certainly, the economy will not prosper without the development of industry, but economic development will be unstable without the support of agriculture. Therefore, the correct way to handle this matter is to make unremitting efforts in grain production while actively developing the diversified economy, to ensure industrial development with agriculture, and to speed up agricultural development with industry.

Our strategic goal to raise our grain output to 450 million tons (1990) and to 500 million tons (2000) in two stages by the turn of the century is unchangeable. Therefore, we must firmly adhere to the guiding ideology that makes agriculture the basis of the economy and, from now on, set great store by grain production. In light of the current situation, the key to a satisfactory harvest of autumn grain this year lies in further implementation of the state's preferential policy toward agriculture and the improvement of production, and supplying the means of production, for agriculture. It is necessary to make sure that the "three link-ups" measure is earnestly implemented so that we can win the people's confidence. At the same time, it is also necessary to make all preparations to fight natural disasters and strive for a good harvest. Fundamentally speaking, in order to change the low growth rate in grain production as soon as possible, we must: Place our emphasis on the handling of the relations between agriculture and the national economy; bear in mind that grain production is a long-term, arduous, and complicated task; treat grain production truly as the very basis of the economy; and we must give priority to the development of grain production. First of all, we must step up the development of those industries that support agriculture and provide agriculture with the necessary means of production. Second, we must open up sources of funds for agriculture, create a profitable investment environment and increase, step by step, agriculture's capacity for self-development. Third, we must maintain a fixed grain growing area and

encourage the peasants to increase investment in production and try their best to raise the per unit area yield. Fourth, we must make greater efforts to foster an agricultural, scientific, and technological contingent, promote research and the dissemination of agricultural science and technology, and enhance productivity. Fifth, we must do a better job in the supply and feedback of information about agricultural production and management, ensure that grain production is carried out in a more strictly planned way, and prevent haphazard production, so as to preserve the peasants' initiative in developing commodity production. Sixth, we must dredge circulation channels for agricultural products and remove obstacles to the sale and purchase of grain. And seventh, we must carry out the rural reform in depth step by step, promote large-scale agricultural production and raise agricultural labor productivity, while giving full play to individual peasants' initiative in production.

Grain production is a major economic issue and also a major political issue to which major strategic importance should be attached. What needs to be reiterated here is that, in saying that this is another year of low growth rate for grain production, we do not mean we are facing serious problems in grain production at the moment. In making this remark we intend to remind people that they must have a clear understanding of the current situation in grain production, and that they should pay enough attention to the problems currently existing in grain production and circulation, take effective measures to solve them, and strive for a higher and steady growth in grain output.

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GRAIN OUTPUT EXPECTED TO FALL SHORT OF TARGET

HK080542 Beijing CHINA DAILY in English 8 Aug 87 p 1

[Text] China's total grain output is expected to range between 395 and 400 million tons this year, 3.5 to 8.5 million tons more than last year. But it will fall short of the year's planned target of 405 million tons.

This will be another year with no big increase in grain output, because of a drop in both summer grain production and the coming early rice harvest, FARMERS' DAILY reported yesterday.

Agricultural officials and experts in Beijing calculated the estimates assuming there will be no serious natural calamities in the latter half of the year, the paper said.

Because of bad weather and a reduction in sown acreage, the country's summer grain output dropped by more than 2.4 million tons from last year to a total of 90.82 million tons this year.

The early rice harvest is also expected to decline from last year's level. So the year's total grain output can only show a slight increase, not one of 15 million tons as expected, although total sown acreage of autumn grain crops, especially high-yield corn and hybrid rice, has been increased by nearly 667,000 hectares, the paper said. It said there should be no alarm about a possible grain shortage so long as the country's total grain output is between 385 and 400 million tons this year.

The State granaries now have plenty of grain in stock, and farmers have also stored much grain themselves, the paper added.

Ample grain supplies are assured, and the recent years of sluggish increase in grain output are not a serious problem.

According to the paper, the country's annual grain consumption will be about 385 to 390 million tons in the next few years; 275 to 300 million tons will be used as food and the rest for animal feed, seed, and other purposes.

In 1984 China's total grain output reached a record high of 405 million tons after five years of bumper harvests which followed the introduction of the household contract responsibility system.

In 1985 its total grain output dropped by 25 million tons from the previous year's figure, to about 380 million tons. In 1986 grain production picked up by 10 million tons to reach 390 million tons but failed to get back to 1984's record level, as planned.

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RENMIN RIBAO ON POOR QUALITY SEED STRAINS

HK301402 Beijing RENMIN RIBAO in Chinese 25 Jul 87 p 2

[Commentator's Article: "Why Are There So Many Fake and Poor-Quality Seeds?-- On Lesson from the Seed Incident in Henan"]

[Text] The resale of bad-quality corn seeds for profit by some areas of Henan Province is a serious incident that does harm to the peasants. Of those people running afoul of the law and being negligent in their duties, some have been subjected to punishment. Some are still under investigation. The Ministry of Agriculture, Animal Husbandry and Fishery, relevant departments of Henan Province and the local authorities are summing up relevant lessons. This is a matter of great necessity.

Seeds cannot be faked. This principle is common knowledge. Some law-defying elements palm off what is false as the genuine thing selling it on the market and trying to make some extra money. This is nothing strange. What is strange is that some state departments and cadres and even some cadres and workers specializing in the business of breeding seeds also get involved in the matter. Can they be unaware of the harm of using bad-quality seeds? No. Can they be unaware that such a practice is against discipline and against the law? Again, no. Then what is it that drives them from stopping the illegal acts of law-defying elements and even causes them to do something that is not open and aboveboard? An analysis shows that there are naturally such underlying causes as the legal system and the system of rules and regulations being less than perfect, there being loopholes in operations and management, and so forth. But, most important of all, it is that relevant departments are still not straight in their thinking and not true to the fundamental goal of wholeheartedly serving the people. They place departmental interests above mass interests and overall interests. (Of course, those of them involved in faking things and selling them for profit and in profiteering are only individual cases.) Some seeds departments are not directly involved in reselling bad-quality seeds for profit. But they think of only departmental profits and losses. Caring little about the peasants' needs and operating on the principle of "taking advantage of shortages [que kou jing ying 4972 0656 4842 3602], they would rather sell small quantities of seeds than large quantities, thus giving illegal peddlers of bad-quality seeds a chance.

In the past few years, many departments serving agriculture have switched over from the previous practice of relying entirely on the state to support

independent economic entities. Such a practice helps arouse the enthusiasm of departments, raise the level of services and improve economic results. The direction is right. But under no circumstances should relevant business departments depart from the fundamental aim of serving agriculture and serving peasants. Nor should they sacrifice overall interests and mass interests to the pursuit of departmental interests. Still less can they do something in defiance of law and discipline. Otherwise, this is incompatible with the fundamental aim of the operations of a department and is not allowed by law. From a long-term point of view, this also can never do anything conducive to the economic results of departments. For example, only by providing fine seed strains and good-quality services can a seed department build up a high reputation and attract customers. And only in this way can it make itself thrive while developing agricultural production, and derive the profits that it deserves. If it relies upon unorthodox practices and improper means to serve its own ends, then even if it should suddenly make a fortune through fraud, it would be a matter of just one or two deals. It would eventually result in reputations being damaged, departmental interests being forfeited and even punishment for legal offenses being invited. "To pass something false off on others is liable to make people take a genuine article as an imitation." Once exposed, a peddler of bad-quality seeds will no longer be trusted. Damage to reputation can be made up for only with an amount of effort many times over.

A reform is under way. The old economic system has been smashed. A new economic system remains to be properly set up. With the new replacing the old system, various contradictions will appear. The seeds incident points to the arduous and complicated nature of the reform at its current stage. Given this situation, our cadres, especially leadership cadres, must keep a clear head. First, they can never be shaken in their confidence in upholding reform. When a problem arises, they cannot back out. They must make investigations and studies looking for a new path. Second, they must pay great attention to ideological education and education in professional ethics among cadres and workers. Third, they must strictly observe law and discipline and show no leniency whatsoever to those defying law and discipline and seizing every opportunity to serve their own ends. This is to ensure the smooth progress of reform. Fourth, they must quickly solve actual problems appearing in reform, straighten out relations in various fields, and coordinate interests in various fields, so that reform measures can be gradually linked up and perfected, with a rational mix of interests established.

Just as some comrades have said in summing up lessons, one of the causes of this incident is bureaucratism in leadership. A wrong policy was followed in exercising leadership. In ordinary times, not enough attention was paid to those problems reported by those at lower levels. Nothing but this was the cause of an incident involving large quantities of bad-quality seeds. It tells us that in deepening the reform and promoting the cause of modernization, we must wage a persistent struggle against bureaucratism.

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FARM MECHANIZATION TO BE EXPANDED FOR NEXT DECADE

OW150952 Beijing XINHUA in English 0756 GMT 15 Aug 87

[Text] Beijing, 15 August (XINHUA)--China is set to settle problems on farm mechanization brought about by economic reforms and work out a development program for the next decade.

In approving a joint report on China's farm mechanization problems submitted by the Ministries of Agriculture, Animal Husbandry and Fisheries, Water Resources and Electric Power, and Forestry, and the State Commission for the Machine-Building Industry, the State Council called on all localities to strengthen farm mechanization work and push development on a selective basis in the light of actual conditions.

According to the joint report, by the end of last year, the country's total power of agricultural machines hit 228 billion watts, up 93.7 percent over 1978, with the number of tractors reaching more than 5.36 million, up 2.8 times, and vehicles for farm use, more than 490,000, 6.6 times over the figures eight years ago. The number of machines for irrigation and drainage, agricultural and side-line products processing, and forestry, animal husbandry and fishery production has also increased by a big margin.

However, some new problems have arisen during the economic reforms. They included low efficiency, drop in irrigation areas, farm machine enterprises lacking the ability to develop new products owing to price rise in raw materials, aging of farm and forestry machinery models, poor management and farm machinery services.

In the next ten years, according to the development program worked out by the four departments, farm mechanization will be pushed on a selective basis, with emphasis on economically developed areas, outskirts of large and medium-sized cities, state farms, areas with vast land but small populations, and the main machines to be developed will be those for plant culture and food production and processing. In other areas, farm mechanization or semi-mechanization may be carried out in selected places in light of their actual conditions.

More efforts should be made to develop machinery for afforestation, seed collection, protection of forests and timber processing.

In agricultural science, priority should be given to promoting the application of new farming techniques, such as mechanized ploughing, sapling breeding and transplanting, irrigation, water conservancy, harvesting, fodder and processing of aquatic products.

Efforts should also be exerted to rationalize prices for some farm machines, upgrade irrigation and drainage equipment, improve services and train more skilled workers.

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CSO: 4020/256

NANJING MR COMMANDER STRESSES PLA TRADITIONS

OW201331 Shanghai JIEFANG RIBAO in Chinese 16 Jul 87 p 1

[Article by Nanjing Military Region Commander Xiang Shouzhí: "Under New Historical Conditions, Vigorously Continue and Promote the PLA's Fine Traditions"]

[Text] Chairman of the Military Commission Deng Xiaoping has repeatedly stressed the importance of inheriting and carrying forward the fine traditions of our army under the new historical conditions, thus expressing the concern of the older generation of revolutionaries for the cause of revolution and their expectations from the younger generation, as well as pointing out the great significance of inheriting and carrying forward these fine traditions in modernizing our country and our army. Since the 3d Plenary Session of the 11th CPC Central Committee, party committees at all levels and the large numbers of commanders and fighters of Nanjing Military region have, acting on the instructions of Comrade Xiaoping and other leading comrades of the Military Commission, strived to adapt themselves to the changes taking place under the new historical conditions and vigorously inherited and carried forward the army's fine traditions in order to ensure the correct political orientation in building the army, thereby intensifying the building of socialist spiritual civilization among PLA units, guaranteeing the implementation of the party's line, principles, and policies in the army, and promoting army building in all fields. The "Ye Ting regiment," an advanced heroic unit with a glorious combat history and remarkable achievements in educating its units in army traditions, has persistently conducted education in the army's fine traditions while performing the task of safeguarding Shanghai. Enriching the content and reforming the method of education on traditions to meet the continuously changing situation, the regiment has effectively raised the political and ideological awareness of its units and ensured the successful completion of all assignments. The regiment's experience is of universal significance in guiding all PLA units in inheriting and carrying forward the army's fine traditions under the new historical conditions.

It has been 60 years since the PLA was founded. In the course of its protracted and arduous struggle, the army has fostered such fine traditions and workstyle as serving the people wholeheartedly, upholding the party's absolute leadership over the army, educating PLA units in Marxism-Leninism-Mao Zedong Thought and the party's correct line, practicing the principle of

maintaining unity between officers and soldiers and between army men and civilians in destroying enemy forces, advocating democracy in political, economic, and military affairs, observing the Three Main Rules of Discipline and the Eight Points for Attention, persisting in seeking truth from facts and following the mass line, and displaying the revolutionary spirit of working hard and fighting tenaciously. These fine traditions and workstyle are the products of integrating Marxism-Leninism with the practice of revolution in China. They crystalize the essential characteristics of the people's army, vividly reflect the proletarian revolutionary spirit and communist ideology, and are the important hallmarks that distinguish our army from that of the exploiting class. The power of the army's fine traditions has long been proved in the history of Chinese revolution. During the difficult years of revolutionary war, the people's army relied on these fine traditions in building powerful concentrations and combat capability, making it possible to use backward equipment to defeat the outwardly strong enemy and enabling the People's Republic to stand lofty and firm in the East.

An important task confronting us is to thoroughly understand the importance of these fine traditions under the new historical conditions and educate PLA units and the people in these traditions. As China passes through a new era of reform and opening to the outside world, new conditions and new problems emerge continuously. These fine traditions are essential for solving the new problems and overcoming the interferences of bourgeois liberalization and ossified thinking to ensure the implementation of the line of the 3d Plenary Session of the 11th CPC Central Committee in all fields. Along with the deepening of the struggle to uphold the four cardinal principles and combat bourgeois liberalization and the progress in carrying out the policy of reform, opening to the outside world, and invigorating the economy, the immediate importance and historical significance of inheriting and carrying forward these fine traditions have become more appealing to the people, exerting growing influence in our political, economic, and social life, and giving a strong impetus to the advance of our cause. To carry out reform, open to the outside world, invigorate the economy, and accomplish the four modernizations, we must thoroughly understand the tremendous significance of the basic spirit of these fine traditions in guiding our endeavors today so that we can conscientiously apply this spirit in guiding our work. We must take into consideration the new characteristics of the new historical period, proceed from the realities of national construction and army building, constantly absorb new ideas and concepts, substantiate and enrich the content of education in these traditions, and improve and perfect ten methods for conducting education in these traditions so that the spirit of these traditions can be readily accepted by the people because they are integrated with the spirit of modern times. We must also regard education in these traditions as an important way to strengthen party building and develop socialist spiritual civilization; carry out this education in coordination with efforts to uphold the four cardinal principles, oppose bourgeois liberalization, rectify party style, and overcome all kinds of negative phenomena; and help and encourage people to maintain the true revolutionary spirit, foster lofty ideals, speed up the process of making reform, opening to the outside world, and accomplishing the four modernizations.

Carrying forward and developing these fine traditions is especially important and pressing for the large numbers of young people, our future and hope. The younger generation bears a great responsibility for taking over and passing on the fine traditions established and maintained by the older generation of revolutionaries. Because of their different life experience and environment, many young people lack the opportunity to personally experience the fine traditions established in the course of revolution and construction over the past decades. They are not good at comparing the old and the new China, and do not easily understand how hard their revolutionary predecessors struggled to remove the three big mountains that laid like dead weight on our backs, and what arduous and prolonged efforts are needed to build a good socialist society. Therefore, vigorously publicizing these fine traditions, constantly conducting vivid and practical education in these traditions among the large numbers of young people is an important objective in ideological and political work in the new period. We must proceed from the long-term interests of the state and the nation, keep in mind the bright future of the socialist cause, and carry out substantial and lively education in these traditions among young people by adopting methods acceptable to them, thereby creating an environment for nurturing the whole society in these traditions. Through effective propaganda and education, we should make the young people understand that these fine traditions did not come by easily, realize their historical responsibility in carrying forward and developing these fine traditions, consciously use these fine traditions and their spirit to criticize erroneous remarks, distinguish between right and wrong, and answer and solve practical problems, so they will unite and wage hard struggle to ensure that the revolutionary cause pioneered by the older generation of revolutionaries is carried on from generation to generation.

All units of our military region should actively respond to the call of the party Central Committee and its Military Commission, and make common efforts to carry forward and develop these fine traditions, so that the fine traditions fostered by the countless revolutionary martyrs with their blood and lives may shine more brilliantly in the great cause of building socialism with Chinese characteristics.

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CSO: 4005/0978

MILITARY, PUBLIC SECURITY

REFLECTIONS ON GROUP ARMY REORGANIZATION BEGUN IN 1983

HK130116 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0356 GMT 11 Aug 87

[Text] Beijing, 11 August (ZHONGGUO XINWEN SHE)--One out of two soldiers of a certain group army in the Beijing Military Region is a professional technical soldier. This indicates that the structure of the PLA ground force which is mainly composed of infantry has undergone a historic change--the professional technical arm has risen to be the mainstay of the ground force.

In April 1983, on behalf of the Central Military Commission, Yang Shangkun, vice chairman of the Central Military Commission, launched a pilot project to restructure this unit into a group army. This project marked the beginning of a whole program to reorganize field armies into group armies. In the past four years this group army has undergone three major readjustments of its establishment structure and six major renewals of its arms and equipment. It has made a breakthrough in the three-three system and has begun to take the road of combined arms. Now this group army, which had only one arm in the past, has developed into a new-type campaign army consisting of many arms and more than 300 specialized divisions which master more than 1,200 techniques and equipped with almost all kinds of the advanced arms and equipment that the Chinese ground force possesses.

When talking about the above historic change, leading people of this group army said: The Central Military Commission's decision on the establishment of group armies reflects the laws and direction of the development of the ground force and the only way to the building of a modern and regularized revolutionary army with Chinese characteristics. From a practical point of view, the unit's overall fighting strength has also increased substantially.

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GROUP ARMY FORMATION LAUDED, EXERCISE DEPICTED

HK160300 Beijing LIAOWANG in Chinese No. 30, 27 Jul 87 pp 14-15

[Article by Zhao Su (6392 5685): "The Story of the Birth of a Certain Mechanized Group Army"]

[Text] On the eve of the 60th anniversary of the founding of the PLA, this reporter paid a visit to a certain mechanized group army under the Beijing Military Region. This group army is a heroic force which was born at the founding of the Army. It is also the first combined army group [jun tuan 6511 0957] of our Army ever to have more than a dozen branches, including motorized infantry, mechanized infantry, tank, artillery, air defense, signals, engineer, reconnaissance, chemical defense, electronic warfare, and meteorology branches.

Since the strategic change in the Army's guiding principles for army building, the Central Military Commission has decided to reduce the size of the Army by 1 million officers and men and to correspondingly readjust the organization of troops in order to adapt them to modern warfare. The group Army was instructed to launch a pilot project on organizing the Army's infantry units into group armies.

In April 1983, Chairman Deng Xiaoping of the Central Military Commission and several old marshals asked Yang Shangkun, a vice chairman of the Central Military Commission, to make a special trip to where the group Army was stationed and to inspect its work accompanied by Commander Qin Jiwei of the Beijing Military Region. At a meeting of cadres at and above division level, this vice chairman of the Central Military Commission marvelously elaborated on the significance of the pilot project on the formation of group armies, saying that the group armies to be formed will be the first ones ever to be formed in the history of our army and that in a certain sense, its significance is no less immense than that of the establishment of our first base during the civil war.

However, inexperienced in forming group armies, our troops have not found it easy to make the pilot project a success. They learned while working and they concentrated their energy on the following three tasks: the task of receiving, handling, and maintaining new equipment; that of conducting theoretical studies on the organization and combat strength of group armies; and that of making preparations for inter-service, inter-branch joint military

exercises. Imbued with the unflinching spirit which made the army invincible during the war years, the whole army has conducted some pioneering research which bears on its modernization. It has organized many professional and technical courses in succession and established one system after another. The cadres and fighters teach and learn from each other. Specialists and technicians have been invited from the defense, research, and production departments to the barracks to teach them to use and maintain new equipment. Over the past two years, it has administered more than 150 training courses and trained a basic technical personnel of more than 6,000. Their superiors have conducted a sample survey of how well they are handling their new equipment and have given them above-excellent grades in each subject.

The task of conducting studies on the organization and combat strength of group armies is even more complicated. The commanders of the mechanized group army first discussed in theoretical terms the special characteristics and roles of its more than a dozen services and arms and more than 370 specialized units and analyzed them both quantitatively and qualitatively. Subsequently, they made an integrated analysis of the overall combat strength and action performance of the group Army and laid down the operational principles and guidelines on the basis of the analytical results. Li, an army commander, is personally in charge of the design and execution of this complicated "software" engineering project. The people under him have checked and collected many records of foreign armies, tested several dozen types of new equipment, and provided reliable data and a practical basis for the theoretical analysis. When the theoretical analysis reached the point of highest intensity, Commander Li ate and slept in his office and worked more than a dozen hours each day. To save time, he frequently had instant noodles or millet gruel for his meals. Sometimes, he might boil an egg or have a raw carrot or a spoonful of soy sauce mixed with vinegar to go with his noodles or millet gruel. He humorously said: "This is internal mixing and stewing, the new cooking method I have invented."

After working very hard for a whole year, they have compiled analysis reports with a total length of more than 2 million characters and published more than 300 academic papers. At a conference of military experts from the relevant departments on the theoretical analysis of the pilot project on the formation of group armies, their research results drew much attention and were spoken highly of.

In 1986, that is, three years after the pilot project on the formation of group armies was executed, when summer was gradually changing into fall, under command of the Beijing Military Region this mechanized group army performed, in a certain part of North China, a major tactical exercise, the purpose of which was to appraise its capabilities. During the exercise, the question of whether the group Army is rationally organized was thoroughly studied and the effectiveness of their equipment, the organizational and commanding abilities of its commanders, and the military and political quality of its unit were closely and comprehensively scrutinized.

The exercise was performed under near-actual combat conditions. With the exception of atomic attacks, nearly all kinds of complicated situations that are possible in modern warfare were arranged for the exercising units to

experience. The military exercise was the most mechanized exercise ever performed by the Army's ground forces and it showed that the mechanized Army group has great integrated combat strength.

During the exercise, when the "red force's" mechanized divisions, that is, its main combat units, began moving toward the combat zone, the "blue force," which had air superiority, fiercely bombed it, thus destroying many bridges, creating havoc at many passes and making life very difficult for its adversary. The commanders of the "red force" commanded their units flexibly. They changed the routes of advance three times in a single day. Taking full advantage of their new equipment, their units rapidly built makeshift platforms and bridges and covered by anti-aircraft fire, kept pushing ahead while trying to fight off the enemy. Eventually, they were able to reach their destination punctually, thus winning time in their fight against enemy invasion. When the leaders and organs of the group Army were on their way to the exercise area, the situation suddenly changed. The headquarters for directing the exercise ordered them to reach their positions one day ahead of schedule. They immediately switched to a forced march. For the next two days, they were on the move day and night, covering a distance of 700 km in two days. That was the highest speed ever attained by mechanized infantry units on a forced march.

The most difficult thing to do was to organize concerted action between various arms. To enable the dozen of services and arms participating in the exercise to act in unison, it is necessary to command very skillfully and to have modern means of command. On the eve of the general counteroffensive, commanders sat in front of a large projection screen, studying the "blue force's" forward positions, the terrain and contours of its rear areas, and the positions of roads, land markers, and strongholds. Every now and then, staff officers would pass on operation documents and written intelligence that had been analyzed with microcomputers to these commanders. The comrades of the headquarters told this reporter that for this exercise, 80 percent of the operation documents were processed with microcomputers and that as a result, they were able to analyze and judge things much more accurately and efficiently. Each tank was fitted with a wireless set. The time when commanders commanded with the bugle and nothing else had now become history.

The general counteroffensive began. The "red force's" guns opened up and fired rapidly. Shortly after this assault, whirling up a dust storm, a stream of steel formed by several hundred tanks and various types of combat vehicles rolled toward the positions of the "blue force." The fighters of the "red force" appeared on the scene punctually to cover the ground force's forward thrust. Under the unified command of the leaders of the group army, the "red force's" guns, which are of different calibers and ranges, opened up, and bombers and attack aircraft of the force's air arm simultaneously pounded at the "blue force's" forward strong points and exposed and rear area targets. The mechanized infantry began an attack while on the march.

Being hit from all directions by the "red force," in an attempt to extricate itself from this beating, the "blue force" concentrated fire on the "red force's" frontal forward units to hamper it. The "red force's" advance bogged down. Its commander immediately ordered suppressive fire from the artillery

units to cover the advance of its mechanized infantry units. When an advance party approached the obstructions set up by the "blue force," members of the "red force's" demolition unit fired from their shoulders various types of rocket-propelled demolition charges. The rockets whistled into the air and hit the "blue force's" minefield and the mines exploded. The engineering unit's automatic bridging tanks swiftly built steel bridges across trenches for the attacking units. From the flanks of the attacking units, the mine-sweeping vehicles of the "red force" stormed into the "blue force's" anti-personnel minefield. It took them only several minutes to blast open a path with a width of several dozen meters and a length of more than 100 meters. The main attacking units of the "red force" steadily pushed ahead without being held up anywhere and penetrated enemy lines like a sabre. Backup units also pressed forward and kept pounding at the "blue force," forcing it to withdraw. Armed helicopters of the "red force" sneaked behind the "blue force," attacked its flanks, and landed behind it, thus cutting it off. By then, nothing could save the "blue force" from defeat.

Military experts commented on this exercise, saying: They were determined and proceeded in the correct direction. The commanders commanded in a rational way and with resolution. The exercise was a success. In the course of building a modern revolutionary army, this heroic force has presented to the party and the people a brilliant examination paper.

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BAN YUE TAN EXAMINES ARMY MODERNIZATION

HK160800 Beijing BAN YUE TAN [SEMIMONTHLY TALKS] in Chinese No 14, 25 Jul 87
pp 7-11

[Article by Xiong Zhengyan (3574 6927 1750) and Chen Xiangnan (7115 3276 1344):
"Red Stars Sparkle as Crack Troops Are Reviewed--Some Features of
Modernization in the People's Army"]

[Text] The 1980's are the years in which the PLA advanced amid reform and made remarkable progress in all fields of work. The whole Army has made great efforts and achieved brilliant successes in building a modern, regular, and revolutionary army. The people's Army which has a glorious tradition of 60 years is marching toward the goal of picked organs, flexible command, sophisticated equipment, better training, high efficiency, and increased combat effectiveness.

I. On 18 May 1980, world-shaking news poured in from the hometown of rockets: Through self-reliance, China successfully launched a carrier rocket to the South Pacific. According to the comments of world opinion, the success is launching carrier rockets shows that China has become one of the few countries which has mastered the technology of launching long-range missiles.

Following the launching of a carrier rocket to the Pacific, China again succeeded in launching a carrier rocket from a submarine in October 1982. A few years later, news of the launching and retrieving of satellites and new records poured in. China's space technology moved towards the world.

The mastery of these sophisticated technologies reflect from one aspect the new achievements of army modernization in the 1980's. Regarding modernization of army equipment, we cannot forget the grand 1984 National Day parade which broadened our field of vision. The different models of missiles, new tanks and armored vehicles, new self-propelled artillery and high speed fighter planes, and the conventional weapons and sophisticated equipment were all designed and manufactured by China. Take China-made tanks for example: besides the new model of China-made main battle tanks which are effective, have good protection and can move at high speed, the PLA also has amphibious tanks suitable for crossing rivers and operating in paddy fields, light tanks for operations in southern areas, and tanks for building bridges and sweeping mines. The tank series based on main battle tanks and dozens of operational

and auxiliary vehicles have become the main assault force in ground operations.

The recent progress of equipment modernization of the Navy and Air Force which has developed on the basis of the ground force after the founding of new China has also been conspicuous. The fleets of the Navy are being automated and are equipped with missiles and electronic devices. The number of different kinds of fighting vessels now in service in the Navy has increased by around 10 times over the early 1950's. The new technology of satellite navigation has been applied universally in the naval vessels. The small gunboats and torpedoes of the past are replaced by China-made guided missile destroyers, guided missile frigates, guided missile fast attack boats, and different kinds of submarines. Large numbers of new naval vessels including training vessels, deep water rescue craft, hospital ships, supply vessels, scientific research ships, and nuclear submarines are now put into service. The whole Navy is highly capable in both offense and defense in three-dimensional warfare.

The number of combat aircraft of China's Air Force ranks third in the world. They include high-altitude, high speed heavy fighters, sophisticated light fighters, medium-range subsonic bombers and light attack planes that have assaulting and bombing capability, mine-laying aircraft, and electronic warfare aircraft. An integrated air defense system, with aviation troops as the main component and including SAM, antiaircraft, airborne, radar, and signal units, has taken shape nationwide.

II. Modernization of equipment is carried out simultaneously with the training of qualified personnel. During the 1990's, it has been an important link in modernizing the PLA to strengthen the building of military academies and improve the quality of the army. According to statistics prepared by the General Political Department, since the 3d Plenary Session of the 11th CPC Central Committee, some 400,000 officers received training in military academies. Seventy percent of the officers at elementary level and over 50 percent of the officers at above intermediate level now in service have received regular training in military academies.

Our military academies are now aimed at the structure of the future world, strategic changes, and training of modern military personnel from the 1990's to the 21st century. Students are all enrolled from senior middle school graduates. Junior commander academies offer undergraduate as well as postgraduate courses. A junior commander must complete 40 courses including modern weaponry and modern warfare. Intermediate level commanders must study the changes of contemporary and future world military strategy, acquire knowledge of arms and services, and become experts who can command the ground force, Navy, and Air Force and also know military and political affairs and logistics work. The first group of military postgraduates trained by our army are now assiduously studying in the quiet and secluded campus of the National Defense University, the highest seat of learning of the whole Army. After graduation, these students with university-level education will become the first generation of China's masters and doctors of military science.

We witnessed an examination conducted for captains on the East China Sea. The skill of the young captains graduated from navy academies in controlling modern warships command admiration.

Those sitting for examination were all captains of guided missile destroyers or frigates, while the chief examiner was a Navy expert. The captains had to undergo theoretical, operation, written, and oral tests. The examination paper was extremely difficult and the oral tests were to be dealt with in earnest. The topic selected by a captain may not be very difficult, but the examiners would raise a series of question focused on the topic. Without sound knowledge, the adaptability to make inferences by analogy, and the ability to remain calm under a complicated situation, it would be impossible to give impromptu answers and pass the examination.

Examinations in actual operating skills primarily tested the commanders knowledge and capability to manage warships in peacetime. The warships were navigating on the vast ocean and five topics were to be examined within four days. The captain was at the command position, while the examiner stood behind him. Meanwhile, there were also examiners exercising supervision over the 40 positions of the warship. The examiner raised questions one after another, while the captain made "operational" plans and gave "operational" orders in light of the question and the actual circumstances. While executing the orders, the captain would lose marks for a slight mistake made by any crew member at any position.

After the examination, all the captains received certificates as "qualified captains."

III. The Central Military Commission held an enlarged meeting in June 1985 to effect a strategic change in the guiding ideology of army building. A new situation prevailed in the Army following the reduction of 1 million troops and acceleration of the pace of structural reform.

Army streamlining and reform and establishment of special units resulted in a historical change of the Army structure. The number of special soldiers in the ground force exceeded the infantry for the first time, effecting a great change in the history of Army building. While the traditional artillery, armored, signal, engineering, and chemical defense units of the ground force are being strengthened, a number of new arms including electronics, air, meteorological, and mountain operation units have been established. As a result, the firepower, shock tactics, mobility, and reaction of the ground force have been enormously enhanced.

The work to change the field Army to a group Army was satisfactorily completed by the end of 1986. In a sense, the leading comrades of the Central Military Commission said, the significance in this regard is by no means secondary to the establishment of a base area during the war years.

We paid a visit to the PLA's first mechanized combined group Army in a certain locality in northern China. "Iron units and dauntless heroes, iron will and indomitable spirit," the new song of the group Army, vividly reflected the new features of the mechanized combined Army group [juntuan] composed of more than

10 arms. In the summer of 1986, this group Army conducted the first military exercise after its reorganization to comprehensively examine the rationality of the new establishment, the effectiveness of weaponry, and the command ability of commanders at all levels. The success of the exercise proved the success of the major structural reform in effecting a change from the field Army to a group Army.

IV. Along with the development of Army modernization, an unprecedented new situation of prosperity has emerged in military scientific research.

In accordance with the principle of facing the modernization program, the world, and the future and strengthening the study of strategic problems, the research in military science has been focused on the study of macro policy decision. On the basis of inheriting and carrying forward Mao Zedong's military thought and to meet the needs of the new situation, the Army enhanced study of national defense strategy, military system engineering, campaign theory, Army management, and national defense economics. Efforts made in these fields extensively opened the spheres of research. Leading organs applied the research results to scientific decisions and to guide Army modernization. The Academy of Military Science alone achieved research results in over 2,000 items.

Unprecedented mass academic research has taken place throughout the Army. According to statistics prepared by the Academy of Military Science, some 100 academic works on military theory written by research fellows or amateurs are produced every year. The large units have respectively established academic committees and held several symposiums a year. Thousands of theses are published annually in the scores of military periodicals of the whole Army.

In the course of reform and opening up, the contacts and cooperation between the Army's military research departments and the military or nonmilitary units, experts, and scholars at home and abroad have gradually increased. From 1986 to May this year, the military and nonmilitary units held more than 49 military symposiums jointly with the academy of military science and the national defense university. The symposiums upgraded the level of research of military science and played a theoretical leading role for the modernization of national defense.

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WEAPONS DEVELOPMENT BENEFITING FROM COMPETITION

OW240618 Beijing XINHUA Domestic Service in Chinese 0556 GMT 23 Jul 87

[By reporter Chen Zhiqiang]

[Text] Beijing, 23 July (XINHUA)--Development and production of weapons and military equipment in China are no longer monopolized by the military. Instead, a new trend of technological competition has begun to emerge. As of now, nearly 1,000 military and private enterprises have joined the competition for development and production of weapons and military equipment. They have competed to undertake a few hundred national defense research projects (including space technologies), and have signed over 150 agreements with military departments.

An official of a department concerned under the National Defense Science, Technology, and Industry Commission told this reporter today that, considering the results of practice, reform of the fund appropriation system for national defense research projects, and the institution of a contract system, especially the institution of a building system for some projects, have brought new vitality to the development and production of weapons and military equipment. He gave a brief account of progress in the following three areas:

1. These changes have contributed to shortening development and production time, concentrating efforts on important projects, improving research work, and the more effective use of funds for research on national defense projects. After institution of a contract system, military departments involved have carefully studied development projects, meticulously prepared their budgets, and made the most of the limited funds available. With the vigorous support of various responsible industrial departments, all bidding units have worked to use new technologies; have competed in terms of technology, quality, prices, and production time; and have worked to develop and produce advanced and practical military equipment. As a result, a good trend in military product research has emerged.

2. These changes have helped improve management in general, and have facilitated the standardization, generalization, and systematization of weapons and military equipment. Since institution of the system of "putting the money where the tasks are," units using the ordered weapons and military equipment--considering the standardization of equipment and maintenance work and the streamlining of research work--have jointly called for bidding on the

development and production of equipment with similar capabilities and using similar technologies. As a result, new progress has been made in developing and producing various kinds of equipment for general use.

3. These changes have strengthened the lateral cooperation among enterprises involved. As a result, they have been able to pool their strengths and complement one another's weaknesses in order to improve the quality of military products. In addition, many joint establishments have been set up to bid for the development and production of military products since the institution of the contract system. These joint establishments, backed by the provinces, municipalities, or prefectures where they are located, have taken full advantage of the strengths of each component of each establishment in order to ensure the quality of their products.

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CONTINUING GROWTH, CONCERN FOR FUTURE IN HONG KONG

46200039 Frankfurt BLICK DURCH DIE WIRTSCHAFT in German 23 Jun 87 p 2

[Unattributed economic report: "Concerned Growth in Hong Kong"]

[Text] Hong Kong--After the economically spectacular performance of 1986, it was expected until the spring of this year that the Crown Colony's growth rate would drop off sharply. These fears, however, have not materialized.

While not all industrial sectors are continuing to experience the same skyrocketing growth as last year, on the whole, Hong Kong is still enjoying a major upswing this year as well. Six to eight percent real growth currently seems assured for 1987.

In addition to the industrial production of the Crown Colony, Hong Kong is playing an increasingly important role in the China trade. This applies particularly to trade with the relatively developed southern Chinese provinces. Reduced to the lowest common denominator, it can be said that Hong Kong's role as mediator in general trade difficulties with China has grown as well.

However, this favorable development should not obscure the fact that longer-term concerns in Hong Kong are clearly mounting. The closer the transfer of sovereignty over the Crown Colony from London to Peking--in 1997--comes, the more Hong Kong Chinese are entertaining serious doubts that the upward trend will continue under Chinese sovereignty. The result is a conspicuous outflow of people and capital. Canada and the U.S. are prime destinations, but Australia and the United Kingdom are also attracting many Hong Kong Chinese.

In many cases, the current pullout is quite flexible. A husband, for example, may remain in Hong Kong in his present position, while his wife and children already emigrate to the future homeland and begin to build a new life there. This trend is so strong in Hong Kong, that scarcely a single conversation with residents goes by in which they do not eventually broach this subject on their own.

Industrial production: In the spring of this year, the average order backlog of Hong Kong industry was 4.5 months. This was still 5 percent more than a year ago. The order backlog for plastics processing and electronics did

particularly well while the textile industry--even with no quota restrictions--showed only a minimal increase overall and the clothing industry experienced a slight drop.

Job market: The situation on the Hong Kong job market still remains tight. In the first quarter of this year, the mean unemployment rate was 2 percent. It had reached 2.4 percent in the previous quarter. The part-time worker unemployment rate was 1 percent in the first quarter. In the previous quarter it lay at 1.2 percent. In absolute numbers, the average number of unemployed in Hong Kong in the first quarter was 52,600, as opposed to 65,100 in the previous quarter. Given this situation in the job market, no noteworthy changes are expected at least for the next few months.

Price development: The paucity of jobs combined with Hong Kong's large dependence on imports has caused inflation to increase slightly. Precisely because the colony is so dependent on imports, the steady devaluation of the U.S. dollar, to which the Hong Kong dollar is tightly bound in a 1 to 7.8 ratio, leads to climbing prices for many import goods. Hong Kong's cost-of-living index is traditionally calculated separately for low, middle, and high income groups. Compared to 1986, the index for low income rose 4.4 percent, for middle income 4.2 percent, and for high income 5.7 percent. At least for the time being, it is quite probable that this trend will continue.

Foreign trade: Foreign trade is and remains the main economic motor in Hong Kong, despite the extremely positive development of the building trade and tourism. The first quarter of this year saw a huge expansion of foreign trade in Hong Kong. The export of goods produced in Hong Kong rose by 32.2 percent, compared to the same period the previous year, to 38.5 billion Hong Kong dollars. At the same time, so-called re-exportation--primarily of goods produced in the People's Republic of China--climbed by 52 percent to 36.5 billion Hong Kong dollars. Since imports also experienced strong growth and rose by 40.8 percent to 78.4 billion dollars, Hong Kong's trade balance deficit increased in the first quarter of this year from 2.5 to 3.4 billion dollars compared to the year before.

In evaluating these figures, it must be taken into account that Hong Kong represents a special shopping metropolis for travelers from all over East Asia. Many imported goods are thus re-exported as part of the tourist trade. This large export activity is inevitably excluded from the above figures. Officially, Hong Kong may show a trade balance deficit, but this is actually not the case. The colonial government is perfectly satisfied with this trade balance, because the deficit is its best argument against American pressure to alter the exchange rate relationship of the Hong Kong dollar to the U.S. monetary unit.

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